BELLSOUTH TELECOMMUNICATIONS, INC.

SURREBUTTAL TESTIMONY OF KATHY K. BLAKE

BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO. 2003-326-C

MARCH 31, 2004

Q. PLEASE STATE YOUR NAME, YOUR POSITION WITH BELLSOUTH TELECOMMUNICATIONS, INC. ("BELLSOUTH") AND YOUR BUSINESS ADDRESS.

A. My name is Kathy K. Blake. I am employed by BellSouth as Director – Policy Implementation and Regulatory Compliance for the nine-state BellSouth region. My business address is 675 West Peachtree Street, Atlanta, Georgia 30375.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

A. Yes, I filed direct testimony and four exhibits on January 29, 2004 and rebuttal testimony on March 12, 2004.

Q. ALL PARTIES HAVE DIRECTED THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA ("COMMISSION") TO VARIOUS PORTIONS OF THE TRIENNIAL REVIEW ORDER ("*TRO*") AND THE RULES IN SUPPORT OF THEIR POSITIONS IN THEIR PRE-FILED TESTIMONY. WHAT IS THE IMPACT OF THE D.C. CIRCUIT COURT OF APPEALS ORDER ON THE TRO IN THIS PROCEEDING?

A. Currently the impact of the D.C. Circuit Court's opinion is unclear. At the time of filing this testimony, the D.C. Court had vacated large portions of the rules promulgated as a result of the *TRO*, but stayed the effective date of the opinion for at least sixty days. Therefore my understanding is that the *TRO* remains intact for now, but its content, and the rules adopted thereto, must be suspect in light of the court's harsh condemnation of large portions of the order. Accordingly, I will reserve judgment, and the right to supplement my testimony as circumstances dictate, with regard to the ultimate impact of the D.C. Court's order on this case.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY AND HOW HAVE YOU ORGANIZED IT?

A. My surrebuttal testimony addresses numerous comments contained in the rebuttal testimony filed by other witnesses in this proceeding on March 12, 2004.

In the first section of my testimony, I make some general observations regarding the rebuttal testimony filed in this proceeding. I then walk through each step of the investigation that the Federal Communications Commission ("FCC") asked the state commissions to undertake to determine whether Competitive Local Exchange Carriers ("CLECs") are impaired without unbundled local switching – specifically, the definition of the geographical market and the mass market/enterprise crossover and the application of the triggers and potential deployment tests. In so doing, I discuss the testimony of various CLEC

witnesses and highlight areas of agreement and summarize rationales for BellSouth's positions where disagreement exists. More detailed arguments can be found in the testimonies of other BellSouth witnesses, to whom I will refer as appropriate.

GENERAL OBSERVATIONS

Q. ARE YOU FAMILIAR WITH THE REMARKS OF OTHER WITNESSES WHO HAVE FILED REBUTTAL TO BELLSOUTH'S DIRECT TESTIMONY?

A. Yes. I have reviewed the testimonies of the numerous witnesses who have filed rebuttal testimony in this proceeding, including that of Messrs. Argenbright, Bradbury, Klick, Van de Water and Wood on behalf of AT&T Communications of the Southern States, LLC ("AT&T"), Mr. Gillan on behalf of Competitive Carriers of the South, Inc. ("CompSouth"), Dr. Bryant and Mr. Webber on behalf of MCI WorldCom Communications, Inc. and MCI Metro Access Transmission Services LLC ("MCI") and Dr. Loube and Mr. Curry on behalf of the Commission Staff.

Q. WHAT IS YOUR GENERAL IMPRESSION OF THE REBUTTAL TESTIMONY?

A. I would make three general observations. First, there seems to be a general tendency toward selective obfuscation. That is, although the FCC has left some

issues to the interpretation of the Commission, there are other issues – such as the application of the triggers tests or the type of CLEC to be modeled in the potential deployment test – on which the *TRO* is crystal clear. Although one would expect there to be legitimate differences of opinion where interpretation is required, there should be no need to cloud issues where clarity has been provided by the FCC. As I will discuss below, Dr. Bryant and Messrs. Gillan and Bradbury are all particularly prone to issue clouding, creating unnecessary complication where none is required, presumably because they do not like the clear direction given by the *TRO*.

Second, there seems to be substantial disagreement amongst the parties attacking BellSouth's positions: some find BellSouth's suggested market definition too small, others find it too large; some find the BACE model too sensitive to inputs, others too insensitive; some claim that BellSouth has counted the wrong trigger candidates, but then argue otherwise in other proceedings (notably the current appeal from the FCC's *TRO* order). To me, this lack of consensus supports my conviction that in areas where judgments need to be made, and where legitimate differences of opinion are therefore to be expected, BellSouth has offered reasonable proposals that the Commission can feel comfortable adopting.

Finally, there are several witnesses (e.g., Messrs. Wood and Gillan) who seek to downplay the responsibility that the Commission has to determine where impairment exists and where it does not. They imply that the *TRO*'s presumption of impairment for mass-market switching based on aggregate, nationwide data shuts the door to a finding of non-impairment based on data

reflecting local market conditions. In fact, nothing could be farther from the truth. The whole point of devolving responsibility to the states was ostensibly so that the state commissions could conduct the granular decision making that the FCC believed it was not in a position to make. Indeed, as the FCC itself explained in its brief to the DC Circuit Court of Appeals: "In making certain national findings of impairment, the Commission also recognized that the record before it was not sufficiently detailed to support the nuanced decisionmaking that *USTA* required**.** To address those situations – involving, for example, local circuit switching, high capacity local loops, and dedicated transport – the Commission enlisted state commissions to gather and evaluate information relevant to impairment in their states. These very specific delegations were reasonably designed to ensure accurate and nuanced analyses of impairment on a market-specific basis." (Brief for Respondent at 21, *USTA v. FCC*, Case No. 00-1012 (DC Cir).) (Emphasis added).

Q. STAFF WITNESS CURRY STATES (PP. 4-6) THAT A FINDING OF "NO IMPAIRMENT" WILL RESULT IN DIMINISHED COMPETITION, AND LOCAL SERVICE CUSTOMERS WILL BE DEPRIVED OF THE BENEFITS OF COMPETITIVE CHOICE. PLEASE RESPOND.

A. Mr. Curry makes the same arguments that are made by Mr. Gillan, which I addressed in my rebuttal testimony at pp. 8-11. To recap, there is no reference in the *TRO* that places a requirement upon this Commission to ensure that a statewide alternative to UNE-P is in place before the Commission can find no impairment in a particular market. Indeed, such a requirement would make no

sense given the fact that CLECs will have the choice of self-provisioning switching, or continuing to purchase UNE-P, albeit at market rates, in those markets where relief is granted. Therefore, Mr. Curry's point that over 85% of all UNE-based local competition in South Carolina is dependent on UNE-P is not relevant to the objective determination of impairment/no impairment on a market by market basis.

MARKET DEFINITION

Q. WHAT IS BELLSOUTH'S POSITION WITH REGARD TO THE DEFINITION OF THE GEOGRAPHICAL MARKET THAT SHOULD BE USED TO EVALUATE IMPAIRMENT?

A. BellSouth has proposed the use of UNE rate zones that the Commission has defined previously, subdivided into component economic areas ("CEAs") as defined by the Bureau of Economic Analysis, U.S. Department of Commerce. As described in the direct, rebuttal, and surrebuttal testimonies of Dr. Christopher Pleatsikas, this definition satisfies the multiple criteria laid out in the *TRO* and results in economically meaningful "markets" in which to consider impairment.

Q. WHAT HAVE OTHER WITNESSES SUGGESTED IN THEIR REBUTTAL TESTIMONY FOR THE GEOGRAPHICAL MARKET DEFINITION?

A. Staff witness Dr. Loube agrees with BellSouth's recommended geographic market definition. Mr. Gillan on behalf of CompSouth recommends a LATA

should be considered a market. (Gillan Rebuttal, pp. 13-14) Notwithstanding his client's membership in CompSouth, on whose behalf Mr. Gillan testifies, Dr. Bryant, on behalf of MCI, suggests that each individual customer represents the appropriate economic market, although he concedes that a wire-center definition would be administratively simpler. (Bryant Rebuttal, pp. 2-9) Although Mr. Bradbury is keen to defend wire centers as the geographical unit of competition (Bradbury Rebuttal, pp. 10-12), another witness for AT&T has suggested LATAs as the appropriate market definition in discovery. (AT&T – Turner's Response to BellSouth's Florida Interrogatory No. 156)

Q. HOW WOULD YOU CHARACTERIZE THESE ALTERNATIVE POSITIONS OF THE PARTIES OTHER THAN BELLSOUTH AND THE STAFF?

A. Geographical market definition is one of those issues that support my general observation above: while Mr. Gillan (CompSouth) and AT&T find BellSouth's market definition is too small, Dr. Bryant (MCI) finds it is too large, which to me suggests BellSouth's proposal may actually be just right. Furthermore, it is interesting that the parties not only contradict each other, but also appear to be contradicting themselves: MCI is arguing for a larger market definition through CompSouth's witness Mr. Gillan and a smaller definition through its own witness, Dr. Bryant; AT&T is suggesting a LATA in discovery (AT&T Response to BellSouth's Florida Interrogatory No. 156), while its witness, Mr. Bradbury, emphasizes that the Commission "must assure itself that UNE-L competition will exist in every wirecenter." (Bradbury Rebuttal, p. 12) Both MCI and AT&T have previously argued against too small a geographical market

definition because their switches can provide service to a comparable area as BellSouth's tandem switches (see Blake Rebuttal, pp. 16-17), even though both are now defending individual wire centers as the unit of meaningful competition (Bradbury Rebuttal, pp. 10-12, Bryant Direct, p. 44-49).

Q. WHAT SHOULD THE COMMISSION DECIDE IN THE FACE OF THESE COMPETING ALTERNATIVES?

A. It is hardly surprising that many alternative definitions of the geographical market have been propounded as this is an issue that has been left to the Commission's judgment. While UNE Zones cut by CEAs is the most logical definition, and is the definition recommended by Dr. Loube on behalf of the Commission Staff, there may be others that meet the FCC's requirements. However, as Dr. Pleatsikas explains, that is not the case with two possible market definitions, both of which should be avoided. The first would be to define the whole State of South Carolina as a market; the second would be to define every wire center within South Carolina as a market. Either of these approaches would run afoul of *TRO* ¶ 495 (the former is too big, the latter is too small). As long as the Commission steers between these two "icebergs," the Commission has some latitude in defining the market.

Q. TURNING FROM THE GEOGRAPHICAL MARKET TO THE DEFINITION OF "MASS MARKET," WHAT IS THE COMMISSION'S TASK?

A. The *TRO* (¶ 497) is quite clear on this point: "Some mass market customers (i.e., very small businesses) purchase multiple DS0s at a single location…Therefore as part of the economic and operational analysis discussed below, a state must determine the appropriate cut-off for multiline DS0 customers as part of its more granular review." The Commission's task is no more and no less than to set a number of DS0s below which a customer is classified as "mass market" and above which it is classified as "enterprise" (and therefore no longer eligible for unbundled switching, per *TRO* ¶ 419).

Q. WHAT IS BELLSOUTH'S POSITION REGARDING THE APPROPRIATE CUTOFF?

A. As described in my direct testimony (p. 8), BellSouth has accepted the FCC default delineation that customers with three or fewer CLEC DS0 lines serving them should be deemed "mass market." This position has also been tentatively adopted by the Ohio PUC. (See *In the Matter of the Implementation of the Federal Communications Commission's Triennial Review Regarding Local Circuit Switching in the Mass Market*, Case No. 03-2040-TP-COI, *Entry*, dated October 2, 2003, p.5.)

Q. WHAT HAVE OTHER WITNESSES SUGGESTED IN THEIR REBUTTAL TESTIMONY FOR THE CUTOFF?

A. Staff witness Mr. Curry agrees with BellSouth's recommendation that a cutoff of four DS0 lines, the default cross-over established by the FCC, be adopted by the

Commission as a reasonable mass market threshold. (Curry Rebuttal, p. 11) Mr. Gillan proposes a 10-line cutoff for BellSouth's territory, which he bases on the testimony of AT&T's witness Mr. Argenbright. (Argenbright Rebuttal, p. 6; Gillan Rebuttal, p. 14.)

Q. WHAT SHOULD THE COMMISSION DECIDE IN THE FACE OF THESE COMPETING ALTERNATIVES?

A. Obviously, BellSouth believes its position is a reasonable one by staying within the *TRO*'s mandate to include multiline DS0 customers while establishing an explicit cutoff. On the other hand, raising the cutoff, as Mr. Gillan suggests, only improves the chances of finding mass-market non-impairment, and so it is not unappealing to BellSouth. However, the Commission should remain mindful of the requirement of the *TRO* and the FCC rule that a single, clear cutoff point be established between "mass market" and "enterprise" customer segments.

THE TRIGGERS AND POTENTIAL DEPLOYMENT TESTS

Q. WHAT DO YOU MEAN BY THE "TRIGGERS AND POTENTIAL DEPLOYMENT TESTS"?

A. Having defined the geographical markets and the "mass market" cutoff, the *TRO* lays out a clear process by which the Commission should determine whether impairment exists for local switching. All witnesses in this proceeding agree that

the Commission should examine each geographical market in turn, first applying the "triggers tests," which examine whether there is actual deployment of CLEC switching on either a retail or wholesale basis. If neither of those trigger tests are satisfied, the next step is the "potential deployment test," which weighs evidence of actual deployment, operational barriers, and economic barriers to determine whether self-provisioning of facilities is potentially economic, even if it has not yet occurred to the extent required to meet either of the triggers.

Q. LET US BEGIN WITH THE TRIGGERS TESTS. WHAT IS BELLSOUTH'S INTERPRETATION OF THESE TESTS?

A. Actually, very little interpretation is required. The *TRO* is crystal clear about the nature of these tests. Furthermore, BellSouth is not claiming that the wholesale facilities trigger is met in any market at this time, which simplifies matters because it means that the Commission only has to consider the self-provisioning trigger. As it is easy to get lost in the lengthy, seemingly plausible, but in fact mostly fictitious, "interpretations" of the trigger test presented by Dr. Bryant and Messrs. Gillan and Bradbury in their rebuttal testimonies, let me quote *in its entirety* the FCC's rule describing this test:

> Local switching self-provisioning trigger. To satisfy this trigger, a state commission must find that three or more competing providers not affiliated with each other or the incumbent LEC, including intermodal providers of service comparable in quality to that of the incumbent LEC, each are serving mass market customers in the particular market with the use of their own local switches. (47 C.F.R. § 51.319 (d)(2)(iii)(A)(1))

Although BellSouth would prefer the trigger to be met with the presence of one or two competing providers, the text is quite clear that three is the threshold. Similarly, although many witnesses would prefer the trigger to be met only if additional criteria – such as a *de minimis* threshold, or a requirement that every customer in the market be served, or that trigger candidates have to use ILEC loops and "mass market switches" (whatever those may be) are satisfied – such criteria are inconsistent with the FCC's rule.

Q. DR. LOUBE (pp. 11-17) AND MR. CURRY (p. 19) ALLEGE THAT CLECS ARE TO BE EXCLUDED AS TRIGGER CANDIDATES UNDER CERTAIN CIRCUMSTANCES. PLEASE RESPOND.

A. Mr. Curry outlines four criteria for exclusion, and refers to Dr. Loube for further detail. Dr. Loube and Mr. Curry state that CLECs are to be excluded as trigger candidates if they : (1) do not provide service to both small business and residential customers; (2) are intermodal providers, (3) are an affiliate of the ILEC, or (4) serve no more than an arbitrary "*de minimis*" number of lines in a market. While I agree that neither the ILEC, nor an ILEC affiliate, can qualify as a trigger candidate, I disagree that the FCC's clear and unambiguous rule quoted above supports any of the criteria that Mr. Curry or Dr. Loube are asking the Commission to create in this proceeding.

In her surrebuttal testimony, BellSouth witness Pam Tipton explains that Mr. Curry and Dr. Loube are erroneously suggesting that the Commission add inappropriate criteria to the FCC's rule; and she describes how, in contrast,

BellSouth has simply applied the plain and unambiguous language of the FCC's rule to the markets that have been proposed. That is, in each market BellSouth has counted how many competing providers – through their own admission in discovery and BellSouth's internal data – are serving mass-market customers. In the markets where there are three or more competing providers, the trigger has been met, and the Commission should immediately find non-impairment. In the markets where there are fewer than three competing providers, the trigger has not been met, and therefore, the Commission should continue its examination to see if such markets pass the potential deployment test.

Q. DR. LOUBE (pp. 13-14) AND MR. CURRY (pp. 19) ADVOCATE A THREE PERCENT *DE MINIMIS* RULE TO EXCLUDE CLECS FROM THE TRIGGER ANALYSIS. PLEASE RESPOND.

A. As discussed in my rebuttal testimony, a *de minimis* test is not appropriate. The *TRO* does not establish any size requirements or specific quantitative standard regarding the number of customers in a market that must be served before a self-provisioning carrier can be "counted" for purposes of the triggers test. Ms. Tipton addresses this point further in her surrebuttal testimony.

Q. DR. LOUBE ASSERTS THAT, FOR A CLEC TO BE COUNTED AS A TRIGGER CANDIDATE, IT MUST "ACTIVELY SEEK" TO SERVE THE MARKET (P. 11-12). DO YOU AGREE?

A. No. As explained in my rebuttal testimony (pp. 22-23), the FCC uses the term "actively providing" service, not "actively seeking" to serve the market. Actively seeking implies that the CLEC is actively marketing its services to potential customers. Actively providing simply denotes the current provision of service within the market. Furthermore, Dr. Loube is citing to language that the FCC modified in its errata of September 17, 2003. The revised language in paragraph 499 of the *TRO* clearly indicates that the FCC is discussing *wholesale switching services providers*.

> Identified carriers providing *wholesale* service should be actively providing voice service used to serve the mass market~~,~~ and be operationally ready and willing to provide wholesale service to all competitive providers in the designated market. ~~providing it at a cost and quality and geographic scope that allow resellers to serve the entire market. They must also be operationally ready and willing to provide service to all customers in the designated market.~~ As we stated above, a party aggrieved by a state commission determination, including a decision on the appropriate market definition, may seek a declaratory ruling from this Commission. *See supra* para. 426 (discussing declaratory ruling determinations). Accordingly, this Commission will exercise its authority as necessary to ensure that state market determinations are reasonable and comport with the guidance set forth herein. ~~They should be capable of~~

~~economically serving the entire market, as that market is defined by the state commission. This prevents counting switch providers that provide services that are desirable only to a particular segment of the market. Identified carriers providing wholesale service should be actively providing voice service used to serve the mass market, and providing it at a cost and quality and geographic scope that allow resellers to serve the entire market.~~ However, the competing carriers' wholesale offerings need not include the full panoply of services offered by incumbent LECs. (TRO at ¶ 499, as amended in the FCC's Errata September 17, 2003, item number 21; emphasis in original, footnotes omitted)

As is obvious from the FCC's errata, the criteria that candidates must be capable of serving the entire market has been removed.

Q. WHERE ARE CLECS PROVIDING LOCAL SERVICE IN BELLSOUTH'S TERRITORY IN SOUTH CAROLINA?

A. CLECs are providing service throughout BellSouth's territory in South Carolina, including UNE Zones 1, 2 and 3. Staff witness Mr. Curry's confidential Exhibit RLC-2, for example, demonstrates that CLECs are providing service in UNE Zones 1 and 2. Furthermore, in August 2003, an MCI employee testified that MCI's residential local exchange service offering known as "The Neighborhood"

is available in UNE Zone 1, UNE Zone 2 and UNE Zone 3. *See* Transcript of Docket No. 2003-367-C at p. 243.

Q. MR. GILLAN STATES THAT "THE SELF-PROVISIONING TRIGGER CANDIDATE'S SWITCHES MUST NOT BE 'ENTERPRISE' SWITCHES." (GILLAN REBUTTAL, P. 23) WHAT IS MEANT BY AN "ENTERPRISE SWITCH"?

A. Within the context of the FCC's *Order*, an enterprise switch is a switch providing service to enterprise customers through the use of DS1 or above loops (*TRO*, ¶441, fn 1354). It is clear from the discussion contained in the *TRO* that this definition is appropriate. Where a CLEC is already using its switch to serve customers using DS0 loops, clearly the serving switch already has the capability to serve mass market customers using DS0 loops and thus is not an "enterprise" switch, regardless of how many or few mass market lines the switch is serving.

Q. SHOULD SWITCHES THAT SERVE PRIMARILY ENTERPRISE CUSTOMERS BUT ALSO SERVE MASS MARKET CUSTOMERS BE SOMEHOW DISQUALIFIED FROM INCLUSION IN BELLSOUTH'S TRIGGER ANALYSIS?

A. No. As I explained in my rebuttal testimony (pp. 24-26), there is no distinction between a so-called "enterprise" and "mass market" switch for purposes of the trigger analysis, despite Mr. Gillan's suggestions to the contrary (Gillan Direct, pp. 38-40; Gillan Rebuttal, p. 23). The trigger analysis contains no requirement

to "qualify" switches, notwithstanding CLEC claims to the contrary. There is certainly no requirement to analyze switch capacity, as Mr. Gillan seeks to do. When a CLEC has self-deployed a switch that is serving mass market customers using DS0 loops as well as "enterprise" customers, the CLEC constitutes a qualified trigger candidate because its self-provisioning of switching "demonstrates adequately the technical and economic feasibility of an entrant serving the mass market with its own switch, and indicates that existing barriers to entry are not insurmountable." (*TRO* ¶501)

Q. MR. CURRY STATES THAT EVALUATING THE STATUS OF COMPETITION IS THE PRIMARY FOCUS OF THIS PROCEEDING. (P. 8) DO YOU AGREE?

A. No. The *TRO* does not require state commissions evaluate the status of competition as part of this proceeding. Specifically, the FCC states in ¶ 114:

> ***Evaluating Impairment Based on the Level of Retail Competition*. We do not adopt a standard that asks whether competition (as opposed to competitive carriers) is "impaired" or base our impairment determination on whether the level of retail competition is sufficient such that unbundling is no longer required to enable further entry.** As explained above, evidence of retail competition over non-incumbent LEC facilities informs our analysis of whether competitive LECs are impaired without access to UNEs. But some carriers, for example, suggest that we not require any unbundling in markets where competitors have achieved a particular market share, where competitors have a certain number of collocations, or where consumers have a choice of facilities-based providers. **We decline to determine impairment based on a certain level of retail competition because section 251(d)(2) requires us to ask whether requesting carriers are "impaired," not whether certain thresholds of retail competition have been met. While it is true that retail**

> **competition is a goal of the 1996 Act, it is not the only goal, and a standard that focused exclusively on retail competition would do so at the expense of Congress's other goals, such as investment in new facilities.** Moreover, the relationship between retail competition and unbundling is complex. In many instances, retail competition depends on the use of UNEs and would decrease or disappear without those UNEs; thus, a standard that takes away UNEs when a retail competition threshold has been met could be circular. While evidence of retail competition over non-incumbent LEC facilities is highly relevant to our impairment analysis as explained above, retail competition that relies on incumbent LEC facilities – whether UNEs, resale, or tariffed services – does less to inform our impairment analysis. We explain in greater detail below why we do not conduct an analysis of individual services, and the levels of competition for those services, below. (Emphasis added.)

Q. HOW HAS BELLSOUTH DEFINED "COMPETING PROVIDERS"?

A. BellSouth has been rather conservative in defining "competing providers." For example, despite the evidence in the *TRO* itself that "local services are widely available through CMRS providers" (¶ 230), that CMRS providers are sufficiently competitive with the incumbent LEC that they should qualify for UNEs (¶ 140), and that CMRS is "growing as a…replacement for *primary* fixed voice wireline service" (¶ 230), BellSouth chose not to challenge the FCC's statement that "at this time we do not expect state commissions to consider CMRS providers in their application of the triggers" (fn. 1549). Similarly, BellSouth did not include internet-based telephone providers, such as Vonage, as trigger candidates, although internet-based telephone providers and CMRS providers are clearly a growing presence and a direct and ubiquitous substitute for the incumbent LEC's voice service. (See Exhibit KKB-5) Eliminating these

two categories of trigger candidates leaves only wireline CLECs included as "competing providers."

Q. CAN CABLE COMPANIES QUALIFY AS TRIGGER CANDIDATES?

A. Yes, the *TRO* provides at fn. 1560 and in the rules at 51.319(d)(2)(iii)(A)(1) that intermodal providers such as cable companies can qualify as self-provisioning triggers. However, because BellSouth has not included cable companies as trigger candidates for South Carolina, this is a moot issue. Nonetheless, it is surprising that Dr. Bryant (Rebuttal, pp.13-15), Mr. Gillan (Direct, pp. 49-51; Rebuttal, p. 23) and Dr. Loube (pp. 15-16) argue that cable companies should not be considered trigger candidates. Besides being flatly contrary to the FCC rules, the positions of MCI, CompSouth and the Staff before this Commission are inconsistent with the CLEC positions set forth in a DC Circuit brief, acknowledging that the "triggers may 'count' carriers like cable companies". (Brief of CLEC Petitioners and Intervenors, *USTA v. FCC*, Case No. 00-1012 (DC Cir), p**.** 37)

Q. WITH RESPECT TO THE "POTENTIAL DEPLOYMENT" TEST, HOW SHOULD THIS TEST BE APPLIED?

A. Although it is not quite as straightforward as the "bright-line" self-provisioning trigger test, the potential deployment test is also well described in the *TRO*. In markets where neither of the triggers tests has been met, the Commission needs to examine three criteria: evidence of actual switching deployment, operational

barriers (such as the availability of collocation space and cross-connects), and economic barriers. (47 C.F.R. § 51.319 (d)(2)(iii)(B)(1)-(3)) If, having weighed these criteria, the Commission decides that self-provisioning of local switching could be economic, then it should make a finding of non-impairment.

Q. HOW HAS BELLSOUTH APPLIED THIS TEST?

A. BellSouth has presented details regarding each of these three criteria: evidence of actual switching deployment is described in the pre-filed testimony of Ms. Tipton; the lack of operational barriers is described in the testimony of several BellSouth witnesses; and the assessment of economic barriers as discussed in the prefiled testimony of Mr. Stegeman, Dr. Aron, and Dr. Billingsley.

Q. WHAT HAVE OTHER WITNESSES SUGGESTED IN THEIR REBUTTAL TESTIMONY REGARDING THE POTENTIAL DEPLOYMENT TEST?

A. The focus of other witness's rebuttal testimony is primarily on BellSouth's assessment of the economic barriers. This assessment was based on the BACE model, a detailed business case for a UNE-L CLEC entering the South Carolina market. In sponsoring the BACE model, BellSouth has made an effort unparalleled by any other carrier in the country to provide the Commission with a tool to assess economic impairment in a way that meets the criteria laid out in the *TRO* (see for example *TRO* ¶ 485 and the direct testimony of Mr. Stegeman, pp. 6-17). Indeed, no other party has even attempted to claim that the models they originally presented in direct testimony are better suited to the task at hand.

Unfortunately, instead of engaging in a constructive debate about the BACE model, the rebuttal testimonies of Dr. Bryant and Messrs. Webber, Bradbury and Wood by and large satisfy themselves with making unfounded attacks on the input parameters or superficial complaints about the structure of the model. The former group of complaints is comprehensively dealt with in the surrebuttal testimonies of Drs. Aron and Billingsley, who show that most of the issues are the results of definitional misunderstandings or attempts to substitute the months of documented research that the BellSouth witnesses have performed regarding variables such as churn, cost of capital, and selling, general and administrative ("SG&A") costs, with offhand assumptions. The latter group of complaints is handled in the surrebuttal testimonies of Messrs. Stegeman and Milner, who demonstrate that none of the witnesses appears to have made a good faith attempt to understand the model, with the result that many of their alleged critiques are inaccurate and mutually contradictory. Staff witnesses Mr. Curry and Dr. Loube also comment on the BACE model, and their comments are addressed in detail in the surrebuttal testimonies of Dr. Aron and Mr. Stegeman.

The Commission should make use of the powerful tool that is the BACE model. Contrary to the assertion of Mr. Wood that the potential deployment test is essentially irrelevant because the absence of self-deployment "should eliminate any question regarding the ability of CLECs to enter a market and successfully compete for mass market customers without access to UNE local circuit switching" (Wood Rebuttal, pp.8-9), the *TRO* lays out a detailed and thoughtful test for state commissions to apply where the triggers are not met. So long as UNE-P promotes artificial competition by distorting market prices and

subsidizing arbitrage players with no interest in making real investments in the state of South Carolina, this test may be some consumers' only hope of benefiting from real, facilities-based competition and therefore deserves to be taken seriously.

Q. ON PAGE 15, MR. KLICK DISCUSSES THE RATES USED IN THE BACE MODEL. SPECIFICALLY, MR. KLICK ARGUES THAT THE RATES INCLUDED IN THE MODEL ARE "FLAWED, BECAUSE BELLSOUTH REDUCED RETAIL PRICES IN LATE 2003." PLEASE COMMENT.

A. The retail rates referred to by Mr. Klick, by his own admission, are Florida rates and therefore, have no relevance to this South Carolina proceeding. Notwithstanding his inappropriate reference to Florida retail rates, Mr. Klick's statement that BellSouth reduced retail rates in late 2003 is wrong. As Mr. Stegeman and Dr. Aron discuss in greater detail, the retail pricing data used as inputs to the BACE model accurately reflect current retail prices in both Florida and South Carolina.

BELLSOUTH'S BATCH HOT CUT PROCESS

Q. ON PAGES 4-5 OF HIS TESTIMONY, MR. VAN DE WATER CLAIMS THAT THIS COMMISSION CAN NOT RELY ON ITS 271 FINDINGS WITH RESPECT TO THE HOT CUT PROCESS. HOW DO YOU RESPOND?

A. The FCC's decision not to rely on the objective hot cut performance data on which it relied in at least forty-nine 271 cases to find that ILECs provide nondiscriminatory access to loops is erroneous. This Commission should not make the same error. It would make no sense for this Commission to ignore its previous finding that BellSouth has a 251/271-compliant hot cut process, and then today, find that the process is unacceptable.

Moreover, even if this Commission does not rely solely on its 271 holding, BellSouth's objective performance data should inform this Commission's decision far more than the CLEC's uncorroborated and anecdotal evidence that BellSouth's process "might not work." BellSouth's witnesses have presented a seamless and efficient batch hot cut process, and have presented performance data and a third party test that demonstrates its effectiveness. When weighed against the CLEC's speculative musings, BellSouth's case is far more compelling. There is no doubt that the Commission's findings in the 271 case should inform its decision, but the Commission can, and should, adopt BellSouth's batch hot cut process based on the evidentiary record in this case.

Q. MR. VAN DE WATER (REBUTTAL, P. 26) CRITICIZES BELLSOUTH FOR NOT FILING THE COST STUDY YOU MENTION IN YOUR TESTIMONY (BLAKE DIRECT, P. 18). IS A COST STUDY RELEVANT TO THIS PROCEEDING?

A. No. The cost study BellSouth conducted of the batch hot cut process was based on the same methodology as approved by the Commission for individual hot cut

rates. As explained in my direct testimony, BellSouth's Proposed Batch Hot Cut rates are the lower of (a) the current SL1, SL2 and UCL-ND nonrecurring rates reduced by 10% of the total Commission approved nonrecurring UNE rates applicable for individual hot cuts or (b) the results of the recent cost study. The only instance in which the cost study resulted in a lower rate is for Order Coordination. (See Exhibit KKB-4 to my Direct Testimony.) The rate is driven, therefore, not by BellSouth's cost study so much as by the Commission's UNE Cost Order.

Q. MR. VAN DE WATER CONTINUES TO TRY TO COMPARE A RETAIL TO UNE-P MIGRATION TO A RETAIL TO UNE-L MIGRATION. IS SUCH A COMPARISON APPROPRIATE?

A. Absolutely not. As I explained in detail in my rebuttal testimony, the work required to migrate a CLEC's service from UNE-P to UNE-L is much more involved than converting retail service to UNE-P. The Commission has recognized this fact in at least two ways. First, it established higher rates for hot cuts than for conversions to UNE-P, recognizing the different work effort in each. Second, it established different benchmarks and retail analogues for UNE-L performance measures than for UNE-P performance measures. The fact that UNE-L and UNE-P are different is no surprise to this Commission. Congress also recognized the difference between UNE-L and UNE-P – it is simply the difference between true facilities-based competition with the UNE-L and synthetic competition with the UNE-P. The question for the Commission is not whether UNE-P is the same as UNE-L, but rather whether an efficient CLEC can

economically enter the market without access to unbundled switching. Because the answer to the second question, the correct question, is unequivocally “yes”, the CLECs are trying to change the question.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

#532536

VONAGE
THE BROADBAND PHONE COMPANY™

Username:
Password:
Forget

HOME | RATE PLANS | AREA CODES | FEATURES | LEARNING CENTER | SIGN UP

Use your broadband internet connection for great savings every month

Unlimited Calls to ANYWHERE in the USA and Canada!

Check out these great features and benefits!

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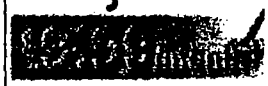
- FREE Call Waiting
- FREE Voicemail
- FREE Call Forwarding
- FREE Repeat Dialing
- FREE Call Transfer
- FREE Caller ID Block
- Int'l Fees to Canada Waived*
- Virtual Phone Numbers
- Any area code of your choice
- Keep your current number
- Money-Back guarantee
- Great International Rates

SIGN UP NOW!

New!
Now add a fa
for just



*Fax Line is Free with Small Business

Residential Premium Unlimited Plan
Residential
Small Business Unlimited Plan
Small Business Basic Plan

Unlimited local and regional calling, *plus* 500 long distance minutes to call anywhere in the U.S. & Canada

Great International R		
Hong Kong	5¢ /min	Lon
Mexico City	6¢ /min	Can
Moscow	5¢ /min	New D
Paris	6¢ /min	Sydr
Tel Aviv	6¢ /min	Tol

See all of our great internatior

Vonage Customers Are Talking

"The clarity is very good, very clear. I love not having to pay extra for the caller ID and call forwarding."
- Melanie Rabuse

Vonage In The News

Forbes You generally get to keep your own number, and it works with your current phone, not a computer... more

Vonage Today

Vonage Becomes First Broadband Telephony Provider To Activate 30,000 Lines

more

Press Releases

Vonage Digital Voice[SM] Launches service in Winston-Salem, North Carolina

Residents and Small Businesses near Lake Murray Can Now Get Unlimited Local and Long Distance Calling for an Affordable Flat Rate

Edison, NJ, May 19 - Vonage, a leading provider of digital telephone service, today announced the availability of Vonage Digital Voice™ service in Columbia, South Carolina.

High-speed Internet subscribers in the center of South Carolina can take advantage of Vonage Digital Voice[SM] telephone service offering free unlimited local and long distance calling, including the most popular features like call waiting, call forwarding and voicemail for one low, flat monthly rate. Vonage Digital Voice[SM] customers in Columbia can now choose telephone numbers within the popular **(803)** area code.

"Vonage is bringing South Carolina's capital city the freedom and flexibility to select an affordable new phone service," said Jeffrey A. Citron, chairman & CEO of Vonage. "As we expand further into the south, Vonage is the choice for residents and small businesses offering flat-rate calling plans throughout the US and Canada that include all of the features, as well as many features not available from traditional phone carriers like online voicemail retrieval and area code selection."

Using the latest technology, Vonage Digital Voice[SM] sets the standard for the new generation of phone service with residential and business calling plans:

- Residential Premium Unlimited Plan - $39.99/month for unlimited calling throughout the United States and Canada.
- Residential Unlimited Local Plan - $25.99/month for unlimited local calling plus 500 minutes of United States long distance and Canadian calling.
- Small Business Unlimited Plan - $69.99/month for unlimited calling throughout the United States and Canada, including a free dedicated fax line.

Press Contacts

Brooke Schulz
Vonage
732.528.2627
brooke.schulz@vonage

Mitchell Slepian
Vonage
732.528.2677
mitchell.slepian@vonag

Michele Husak
Connors Communicatic
212.798.1414
michele@connors.com

- Small Business Basic Plan - $39.99/month for 1500 minutes of calling throughout the United States and Canada, including a free dedicated fax line.
- Services and hardware included for free in all Vonage Digital Voice[SM] plans:
    - Voicemail
    - Caller ID
    - Call waiting
    - Call forwarding
    - Call transfer
    - Call return (*69)
    - Caller ID block (*67)
    - Repeat dialing
    - Area code selection
    - International call block
    - Bandwidth saver
    - Web-based account management, voicemail retrieval and real-time inbound/outbound calling activity
    - International calling at significantly reduced rates, such as:
        - **London 6¢ per minute**
        - **Tel Aviv 6¢ per minute**
        - **Sydney 6¢ per minute**

About Vonage
Vonage is redefining communications by offering consumers and small businesses an affordable alternative to traditional telephone service. The fastest growing telephony company in the US, Vonage's service area encompasses more than 1000 active rate centers in over 100 US markets. Sold directly through www.vonage.com and partners such as Amazon.com, Vonage currently has nearly 24,000 lines in service. Over 1.5 million calls per week are made using Digital Voice, the easy-to-use, feature-rich, flat rate phone service. Vonage is headquartered in Edison, New Jersey. For more information about Vonage's products and services, please visit www.vonage.com or call 1-VONAGE-HELP. Vonage Digital Voice is a trademark of Vonage Holdings Corp.

Vonage Digital Voice™ Launches Service in Charleston, South Carolina

Residents and Small Businesses from West Ashley to James Island Can Now Get Unlimited Local and Long Distance Calling for an Affordable Flat Rate

Edison, NJ, May 20 - Vonage, a leading provider of digital telephone service, today announced the availability of Vonage Digital Voice™ service in Charleston, South Carolina.

High-speed Internet subscribers in southeastern South Carolina can take advantage of Vonage Digital Voice telephone service offering free unlimited local and long distance calling, including the most popular features like call waiting, call forwarding and voicemail for one low, flat monthly rate. Vonage Digital Voice customers in Charleston can now choose telephone numbers within the popular **(843)** area code.

"Vonage is excited to bring an affordable, full featured phone service to Charleston, the historic cultural capital of the South," said Jeffrey A. Citron, chairman & CEO of Vonage. "Now residents and small businesses in the Charleston area can use their high-speed Internet connection for a better phone service, including free unlimited local and long distance throughout the US and Canada, reduced International calling rates and all of the latest features combined with great service and sound quality."

Using the latest technology, Vonage Digital Voice sets the standard for the new generation of phone service with residential and business calling plans:

- Residential Premium Unlimited Plan - $39.99/month for unlimited calling throughout the United States and Canada.
- Residential Unlimited Local Plan - $25.99/month for unlimited local calling plus 500 minutes of United States long distance and Canadian calling.
- Small Business Unlimited Plan - $69.99/month for unlimited calling throughout the United States and Canada, including a free dedicated fax line.
- Small Business Basic Plan - $39.99/month for 1500 minutes of calling throughout the United States and Canada, including a free dedicated fax line.
- Services and hardware included for free in all Vonage Digital Voice plans:
  - Voicemail
  - Caller ID
  - Call waiting
  - Call forwarding
  - Call transfer
  - Call return (*69)
  - Caller ID block (*67)
  - Repeat dialing
  - Area code selection
  - International call block
  - Bandwidth saver
  - Web-based account management, voicemail retrieval and real-time inbound/outbound calling activity
  - International calling at significantly reduced rates, such as:
    - **London 6¢ per minute**
    - **Tel Aviv 6¢ per minute**
    - **Sydney 6¢ per minute**

About Vonage

Calling via Internet has suddenly arrived

By Suzy Parker
USA TODAY

▶ How Internet telephone calls work, graphic 2B.

▶ Expert chat online
Chat about this topic with Daryl Schoolar of In-Stat/MDR on Wednesday at 2 p.m. ET at talk.usatoday.com

By Paul Davidson
USA TODAY

Mark Jaffe of St. Louis recently threw caution to the wind and ditched his trusty SBC Communications local phone service in favor of an offering from an Internet phone start-up called Vonage.

Now his calls travel over the Internet via his cable broadband line. His typical $120 monthly bill has been cut to a flat $39.99 rate for unlimited local and long-distance calls and features such as caller ID. Because his physical location is irrelevant for Internet phone service, he was able to choose a number with a San Francisco area code (415), allowing a close friend in that city to dodge long-distance charges. Plus, via a PC he can hear his voice mail by clicking on e-mail, and he can update his call-forwarding, track his calls and bills and even change his phone number, all on the Web.

"There was initial concern," says Jaffe, 36, noting the dubious quality and reliability of Net calling in the late 1990s. But, "Quality is phenomenal, and it's very cost-effective."

Cover story

Making phone calls on the Internet has suddenly arrived — and it's poised to rock the telecommunications industry.

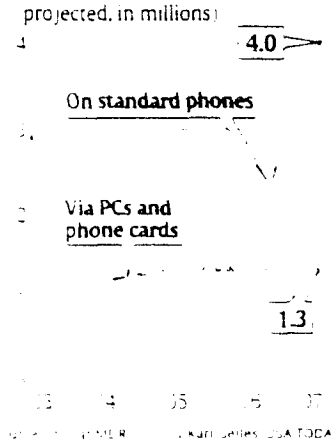
Until about 18 months ago, Internet calls meant tinny, ham-radio like connections over PC microphones and speakers. It was largely the province of hobbyists who gladly put up with the jittery voice quality for the chance to beat the system, make free calls and cultivate a pioneer spirit.

But technological advances and broadband's growth have made calls on the Net, or Internet-like private networks, roughly equivalent to traditional phone service.

"It's beginning to transition from something only a real Internet-savvy person would do into something ordinary folks can do," says Jupiter Research

Please see COVER STORY next page ▶

More Web calls
Number of U.S. consumers making calls on the Internet:
projected, in millions)



Technological advances make Net

Continued from 1B

analyst Joe Laszlo.

The number of U.S. households making Internet calls with standard phones is expected to grow from about 100,000 today to 4 million in 2007, says In-Stat/MDR.

There is a catch: You generally need to already have a broadband connection, which costs about $40 a month. The number of such cable modem and phone company DSL lines is projected to double to about 40 million in 2007, Jupiter says.

Cover story

The technology is not new. Since the mid-1990s long-distance companies have sent a growing portion of their intercity traffic via "Voice over Internet Protocol (VoIP)" technology, though customers don't realize it. VoIP is similar to the public Internet service offered by firms like Vonage — both convert voice into digitized packets — but instead it uses private networks.

Last year, 10% of international calls used VoIP, says research firm TeleGeography. Prepaid calling cards that charge a few pennies a minute use VoIP networks. And in countries like Brazil and Japan, VoIP calling is taking off.

In the USA, Internet phone calling has been slower to develop. A handful of start-ups, such as Vonage and Packet8, offer service that lets customers plug their traditional phones into company-supplied adapters, which, in turn, hook into any broadband line.

Cable could drive adoption

But the big market shake-up is expected to come from heavy marketing by the cable industry, which has an existing customer base and can bundle phone with TV and Internet services.

"I think cable companies are going to take up to 20% market share" from the regional Bells, says analyst Norm Bogen of In-Stat/MDR.

VoIP is already making inroads among businesses. Nearly 10% of companies that use private networks to link their far-flung locations have moved their intra-office voice calls off the public network and onto VoIP connections, Forrester Research says. They are seeing as much as a 50% decrease in local and long-distance charges.

That's because Internet voice networks are 20% to 50% cheaper to deploy than standard ones, experts say. Traditional circuit-switched phone networks use expensive call-routing computers and wires to link you and the person you're calling for the entire conversation.

Internet-based calls break up voice into digitized "packets," each of which takes the most efficient route as it shares wires with other Internet traffic. As the packets near the destination, they are reassembled as a voice.

Within 20 years, nearly all calls will be Net-based, experts say, as even the Bells phase out old-style networks in favor of VoIP technology. "I doubt there'll be any more significant investment in" circuit-switched gear, says Bob Atkinson of the Columbia Institute for Tele-Information.

Dial a friend through the Internet

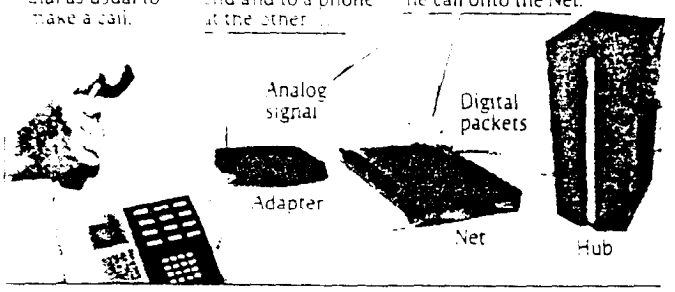
Vonage sells Internet-based phone service that is almost indistinguishable

How it works:

Vonage sends users an adapter. Once it's connected, users dial as usual to make a call.

The adapter, which plugs into a high-speed Net connection on one end and to a phone at the other,

converts the analog signal of a phone call into the digital packets of the Internet, carrying the call onto the Net.



Verizon spokesman Eric Rabe acknowledges a transition is coming, but says it will "take a long, long time." For now, he says, "I'd be surprised if (Internet calling) were as reliable and dependable as our service."

A rocky start for Web calling

It certainly wasn't in 1995, when firms such as Net2Phone started letting people call free from PC to PC using Internet Protocol (IP) addresses.

In the late 1990s, Cisco, Lucent and others built adapters to convert analog voice signals into packets at the caller's home, so regular phones could be used. They also developed "gateways" to translate packets and IP addresses into voice conversations and phone numbers at phone switching stations so calls could use traditional phone lines. Still, echoes and delays marred calls.

But the past few years have brought better equipment, improved technology and more high-speed lines. Ironically, the telecom crash may have spurred some of the advances. "During the downturn, a lot of the engineering went into chips and applications" for the Internet, says Jeff Pulver, a founder of both Vonage and Free World Dialup, another Internet phone start-up.

Vonage was the first company to leverage the technology with a nationwide offering last year. Besides its $40 all-you-can-call service, it offers a $25.99 plan with 500 minutes of long-distance. There's a $29.99 activation fee.

Customers can use the service wherever they can plug a phone and the adapter into a broadband line — not just at home. The phone number stays with the device.

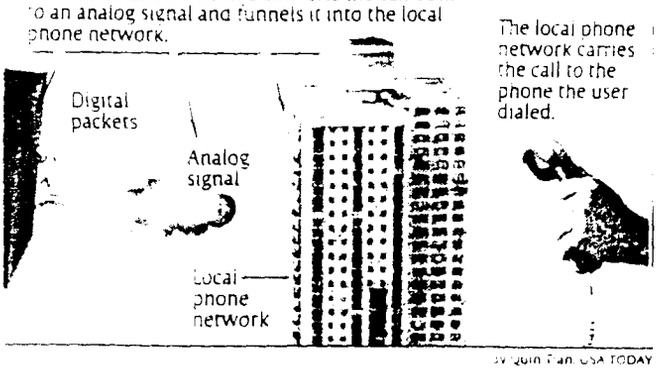
Vonage has 34,000 subscribers, is adding 1,400 a week and expects to reach 1 million by 2006. It recently made distribution deals with No. 3 Internet service EarthLink and two midtier cable firms.

"We gave consumers an experience that's almost identical to what they're used to," Vonage CEO Jeffrey Citron says.

For EarthLink, says Vice President Erika Jolly, adding voice to broadband service reduces customer defections.

't calling more like regular calling

...nable from service from local phone companies.



By Quin Fan, USA TODAY

Citron concedes quality problems in a small percentage of calls. Experts say that's partly because voice packets may sometimes have to give way to data packets as they share paths on the Internet, delaying the arrival of the voice signal.

Cable companies say their more uniform private networks are able to give priority to the voice packets, virtually eliminating such glitches. While most big cable companies have dabbled in voice offerings using standard switches, they were not planning full-scale rollouts until the arrival of reliable VoIP.

Now, four of the biggest providers — Comcast, Cox Communications, Time Warner Cable and Cablevision — plan to launch Net-style voice service across their regions in the next few years. Small providers are expected to partner with suppliers like Net2Phone and Vonage.

For cable operators, the low cost structure of VoIP calling makes local phone service "a much more attractive business to be in," says Tanya Van Court, vice president of Cablevision, which offers service in western Long Island and expects to offer it by the end of the year to all 4.4 million of its customers.

Cablevision's package is $34.95 for unlimited local and long-distance and five phone features. For a similar package, the local Bell, Verizon Communications, charges Long Island customers $59.95. MCI offers a $49 bundle.

Unlike Vonage, which carries the call across the Internet all the way to wherever the recipient may be, cable companies now typically pay long-distance carriers to transport calls out of their system area, adding to their cost. Comcast, however, is building its own national IP network to skirt those fees.

New phone features a draw

Van Court says the big selling point for Web-based calling will be a whole new range of features. "We think that a year or two from now, customers won't be interested in standard telephone service. They'll be interested in how to enhance their Internet experience with voice."

She cites integrated text- and voice-based chats and the ability to use your PC to customize phone features in real time. For example, you can forward calls to another number, then have them go to voice mail if there's no answer. And Time Warner Cable is looking to provide Caller ID and voice mail notification on your TV screen, doing away with the need to get up from the recliner when the phone rings, says Gerry Campbell, senior vice president for voice for Time Warner, which now has about 1,600 customers in the Portland, Maine, and Rochester, N.Y., areas paying $39.95 for an unlimited calling service.

"We've cut our phone bill in half," says Sandy Franklin, 54, of Gorham, Maine. The service, she says, had some glitches in the initial weeks, but has worked seamlessly since.

Says Cox Communications' Dianna Mogelgaard: "We're looking to be the primary telephone provider." And while Cablevision requires voice customers to also subscribe to high-speed service, Comcast says subscribers will simply need access to a cable broadband line.

The technology has drawbacks. Internet-based phones won't work during a power outage. Most cable companies are considering equipping their modems with battery packs that last up to 16 hours. Cordless regular phones have the same power issue, however. And the prevalence of cellphones has made it less of a concern.

More significant, Vonage customers must register for 911 service. Even then, dispatchers cannot see the caller's phone number and address automatically, as they do with a call from a traditional phone. For that reason, many subscribers use Vonage as a second phone line.

But cost alone has businesses already embracing Net calling. Last year, the Appleton School District in Wisconsin replaced its phone system with a Mitel Systems IP network linking its 26 schools. Now, phone calls between the schools travel over the same private lines that carry data, slashing phone bills 40%.

For Crate & Barrel, a similar IP network from SBC for its Northbrook, Ill., headquarters means not having to run new wires when employees move offices, says phone manager Mark Carrier. And the system lets employees use the phone screen to dial a colleague by clicking on a directory name and even to check weather and stocks.

SBC also is rolling out a service that would permit corporate employees to plug their IP phones and laptops into any broadband line.

One price edge for Net-based calls may be short-lived, however. Because Internet traffic is unregulated, IP voice customers don't pay most phone taxes, such as universal service fees. But as the market grows, the Federal Communications Commission is expected to impose such charges.

Also, several states may raise the fees VoIP carriers such as AT&T pay the Bells to transfer Internet-based calls to their local networks, bringing those charges a bit closer to regular voice calls. Yet IP calls should still be cheaper, and observers eventually expect giants like AT&T and MCI to offer the service — on their own or by buying start-ups such as Vonage.

When that happens, "People are going to sign up for it in large volumes," says AT&T Vice President Robert Quinn.

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USA TODAY

Money

SECTION B

Monday, July 7, 2003

Suiting up for battle

Retailers have had to come to grips with a harsh reality: Men just don't buy a lot of clothes, especially when times are tough. Stores' survival strategies, 6B.

Business travel

By Alison Maxwell

Stretch: JetBlue Airways will add 3 inches of legroom to about two-thirds of its seats in September when it removes a row — six seats — from its jets. Rows 2-9 — in front of the emergency exits — will keep their 32-inch pitch; rows 10-26 will have a 34-inch pitch.

E-tickets grow: United Airlines and partner Lufthansa now offer interline e-ticketing for flights to more than 270 destinations they serve worldwide.

▸ More travel news at travel.usatoday.com

Moneyline

Thursday markets

Index	Close	Change
Dow Jones industrial average	9070.21 ▼	72.63
Dow for the week	▲	31.16
USA TODAY Internet 50	92.33 ▼	1.06
e-Business 25	84.18 ▼	1.38
e-Consumer 25	132.30 ▲	0.23
Nasdaq composite	1663.46 ▼	15.27
S&P 500	985.70 ▼	3.05
T-bond, 30-year yield	4.69% ▲	0.11
T-note, 10-year yield	3.66% ▲	0.12
T-bill, 3-mo., discount rate	0.85% ▲	0.01
Gold, oz, Comex	$351.00 ▼	3.30
Oil, light sweet crude, barrel	$30.42 ▲	0.27
Euro (dollars per euro)	$1.1479 ▼	0.0067
Yen per dollar	118.24 ▲	0.22

Sources: USA TODAY research, MarketWatch.com

Midyear mutual fund report

- Quarter's and year's best and worst, 3B
- Average fund gained 16.8% in quarter, 3B
- How the largest funds fared, 4B
- Health care funds on the mend, 4B
- Monthly stock fund report, 7-10B

Investors brace for earnings

See how each of the stock market's 23 industry groups is faring. Market trends, 12B.

Expanded coverage at http://money.usatoday.com

Demand for cellphone gear still weak

The chairman of Swedish telecom equipment maker Ericsson said Sunday that he saw no improvement in the weak market for mobile networks. The world's biggest maker of mobile networks said in April it expected the market to shrink more than 10% in dollar terms — similar to sentiment from rivals Nokia and Motorola. Wireless carriers have cut spending on networks and have delayed building ultrafast networks for mobile Internet use. Ericsson said it will cut its workforce next year to 47,000, down from 51,000.

Spammers' fake sites

Many targeted for ID theft

By Jon Swartz
USA TODAY

Spam is turning to scam.

As millions of consumers are bombarded with junk e-mail, more of them are targets of identification theft.

Customers of Best Buy, EarthLink and America Online are among recent targets of so-called phisher sites — bogus Web sites that fish for personal data such as credit card and Social Security numbers from unsuspecting consumers.

"This takes spam to a criminal height," says analyst Paul Ritter of the Yankee Group research firm.

Complaints are rising — 185 so far this year vs. 223 in 2002, the Identity Theft Resource Center says.

Eric Wenger, a Federal Trade Commission attorney, says the problem is pronounced among customers of large Internet service providers and banks with online accounts. It is unclear how many people have fallen for the scam or how much they lost, he says, but reports of spam-related fraud have picked up at:

How to avoid identity the

- Scrutinize return e-mail addresse
- Look for sloppiness, such as missp grammar, on bogus Web sites.
- Try to verify a Web site by calling there's no phone number, that's a
- Collect information about the site state and federal authorities. The mission can be reached at 877-43 www.consumer.gov/idtheft.

Source: Yankee Group, Federal Trade...

- **Best Buy.** In what could be one cases, the No. 1 electronics cr recently used spam called "Fraud Ale ers of credit card and Social Securit The e-mail, which claimed to be directed consumers to a Web site the company's site. Many consume had contacted Best Buy because th final data.

FBI Special Agent Paul McCabe s in its early stages. He says it is people were stung. Best Buy says